SEC11

Consolidated Financial Statements of

KIK INTERACTIVE INC.

Year ended June 30, 2016
(Expressed in US Dollars)

EXHIBIT
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19-cv-5244-AKH

EXHIBIT
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HO 13588

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kik Interactive Inc.

We have audited the accompanying consolidated financial statements of Kik Interactive Inc., which comprise the consolidated statement of financial position as at June 30, 2016, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kik Interactive Inc. as at June 30, 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

December 21, 2016
Waterloo, Canada

KIK INTERACTIVE INC.

Consolidated Statement of Financial Position

June 30, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 41,592,731	$ 18,565,036
Restricted cash	393,197	376,000
Accounts receivable (note 3)	785,396	657,532
Other receivable	103,366	462,606
Investment tax credits recoverable	1,038,867	1,171,878
Prepaid expenses and other assets	609,364	492,586
Total current assets	44,522,921	21,725,638
Equipment and leasehold improvements (note 4)	601,848	578,807
Intangible assets and goodwill (notes 5 and 16)	2,218,296	1,564,333
	$ 47,343,065	$ 23,868,778
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,161,607	$ 1,575,654
Deferred revenue	33,179	240,328
Provisions (note 6)	1,920,847	590,481
Total current liabilities	5,115,633	2,406,463
Shareholders' equity:		
Share capital (note 7)	118,132,069	69,771,409
Contributed surplus (note 8)	2,887,591	1,526,599
Share purchase warrants (note 9)	454,970	454,970
Deficit	(79,247,198)	(50,290,663)
Total shareholders' equity	42,227,432	21,462,315
Commitments and contingencies (note 10)		
Subsequent events (note 18)		
Total liabilities and shareholders' equity	$ 47,343,065	$ 23,868,778

See accompanying notes to consolidated financial statements.

KIK INTERACTIVE INC.

Consolidated Statements of Operations and Comprehensive Loss

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Revenue	$ 2,237,548	$ 1,735,578
Cost of revenue	613,886	550,386
Gross profit	1,623,662	1,185,192
Expenses:		
Salaries and benefits	10,141,354	5,863,634
Server costs	7,644,580	5,814,174
Technical operations	2,909,123	897,957
Professional fees	2,608,383	1,203,774
Office and general	2,533,912	1,849,876
Contract labour and consulting services	1,583,852	594,979
Travel, meals and entertainment	1,263,586	711,160
Marketing	541,757	666,523
Total expenses	29,226,547	17,602,077
Loss before the undernoted items	(27,602,885)	(16,416,885)
Other income (expenses):		
Investment tax credits	880,131	504,899
Interest income	119,719	100,015
Interest expense	-	(115,377)
Depreciation and amortization	(285,170)	(153,066)
Bad debt expense	(246,355)	-
Foreign exchange gain (loss)	(636,944)	(1,468,853)
Stock-based compensation expense (note 8)	(1,185,031)	(1,128,084)
	(1,353,650)	(2,260,466)
Loss for the year being comprehensive loss	(28,956,535)	(18,677,351)
Deficit, beginning of year	(50,290,663)	(25,294,250)
Premium on redemption of shares	-	(6,319,062)
Deficit, end of year	$ (79,247,198)	$ (50,290,663)

See accompanying notes to consolidated financial statements.

KIK INTERACTIVE INC.

Consolidated Statements of Changes in Shareholders' Equity

Year ended June 30, 2016, with comparative information for 2015

	Share capital	Contributed surplus	Share purchase warrants	Deficit	Total
Balance as at July 1, 2014	$ 59,734,813	$ 532,477	$ 479,435	$ (25,294,250)	$ 35,452,475
Total comprehensive loss for the year	-	-	-	(18,677,351)	(18,677,351)
Issuance of shares	9,010,780	(133,962)	(24,465)	-	8,852,353
Stock-based compensation	-	1,128,084	-	-	1,128,084
Redemption of shares	(995)	-	-	(6,319,062)	(6,320,057)
Share consideration in acquisition of Endemic Mobile Inc.	1,026,811	-	-	-	1,026,811
Balance as at June 30, 2015	69,771,409	1,526,599	454,970	(50,290,663)	21,462,315
Total comprehensive loss for the year	-	-	-	(28,956,535)	(28,956,535)
Issuance of shares (note 7)	48,266,527	(6,705)	-	-	48,259,822
Stock-based compensation (note 8)	-	1,159,040	-	-	1,159,040
Share consideration for services (note 7)	24,600	-	-	-	24,600
Share consideration in acquisition of Blynk. (notes 7 and 16)	69,533	208,657	-	-	278,190
Balance as at June 30, 2016	$ 118,132,069	$ 2,887,591	$ 454,970	$ (79,247,198)	$ 42,227,432

See accompanying notes to consolidated financial statements.

KIK INTERACTIVE INC.

Consolidated Statements of Cash Flows

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Loss for the year	$ (28,956,535)	$ (18,677,351)
Items not involving cash:		
Depreciation and amortization	285,170	153,066
Stock-based compensation	1,185,031	1,128,084
Restricted stock units issued	-	112,500
Interest expense	-	115,377
Change in provisions	1,330,366	504,286
Other non-cash items	(147,679)	(145,937)
	(26,303,647)	(16,809,975)
Change in non-cash operating working capital:		
Restricted cash	(17,197)	(305,710)
Accounts receivable	(127,864)	(582,072)
Other receivable	359,240	(412,118)
Investment tax credits recoverable	133,011	(297,416)
Prepaid expenses and other assets	(116,778)	(432,642)
Deferred revenue	(207,149)	240,328
Accounts payable and accrued liabilities	1,588,911	(73,736)
Cash used in operations	(24,691,473)	(18,673,341)
Financing:		
Proceeds on issuance of share capital, net of transaction costs (note 7)	48,222,720	8,251,082
Redemption of shares	-	(6,320,057)
Proceeds from exercise of stock options (note 7 and 8)	15,750	287,977
Proceeds from exercise of share purchase warrants	-	48,811
Repayment of debt principal	-	(825,314)
Repayment of debt interest	-	(122,790)
Cash provided by financing activities	48,238,470	1,319,709
Investing:		
Additions to equipment and leasehold improvements (note 4)	(203,263)	(262,185)
Additions to intangible assets (note 5)	(10,102)	(1,247)
Acquisition of Blynk, net of cash acquired (note 16)	(305,937)	-
Acquisition of Endemic Mobile Inc., net of cash acquired	-	(77,652)
Cash used in investing activities	(519,302)	(341,084)
Increase (decrease) in cash and cash equivalents	23,027,695	(17,694,716)
Cash and cash equivalents, beginning of year	18,565,036	36,259,752
Cash and cash equivalents, end of year	$ 41,592,731	$ 18,565,036

See accompanying notes to consolidated financial statements.

Nature of Business:

Kik Interactive Inc. is a private company domiciled principally in Canada and incorporated federally on May 20, 2009, under the Canada Business Corporations Act. The Company's primary business activity is the development and monetization of the "Kik" mobile messaging platform. These consolidated financial statements comprise Kik Interactive Inc., and its subsidiaries Kik US Inc., Endemic Mobile Inc., 1908251 Ontario Inc. (Blynk), Clik Interactive Inc. and Snowball Labs Inc. (together, the "Company"). The Company's registered address is 420 Weber Street North, Suite 1, Waterloo, Ontario.

1. **Basis of presentation:**

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issuance by the Board of Directors of the Company on December 21, 2016.

(b) Basis of measurement and presentation:

The consolidated financial statements have been prepared on the historical cost basis.

These consolidated financial statements are presented in United States dollars ("US dollars"), which is also the Company's functional currency.

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as follows:

(i) Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. At June 30, 2016, the Company has assessed that it is not probable that sufficient taxable profit will be available to use deferred income tax assets based on operating losses in prior periods, therefore, there are no balances carried in the consolidated statements of financial position for such assets. In addition, the valuation of investment tax credits receivable requires management to make judgments on the amount and timing of recovery.

(ii) The Company makes judgments related to the anticipated outcome of legal proceedings for which the Company is involved. Differences in actual results versus those anticipated by the Company could result in a change in provisions as well as the Company's comprehensive loss.

KIK INTERACTIVE INC.

1. Basis of presentation (continued):

(c) Use of estimates and judgments (continued):

(iii) The Company makes estimates and utilizes assumptions in determining the fair value for stock-based compensation expense. The fair value of the options granted are determined using the Black-Scholes option pricing model. The key assumptions used are the expected term of the option, the applicable risk-free interest rate, the expected volatility of the share price, as well as the fair value of the share price at the grant date. The expected term and volatility are determined using historical data from comparable companies. The share price is determined using recent equity transactions for the Company, with adjustments made for differences in characteristics of the instruments issued, liquidity, and other items. The risk-free interest rate is determined using the United States Treasury rate for a similar period to the expected term of the option.

(iv) The Company makes estimates in determining the recoverable amount of investment tax credits for which the Company is eligible. Such amounts are subject to audit by relevant tax authorities and, accordingly, actual amounts received may differ from amounts recorded as recoverable.

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Company entities.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of Kik Interactive Inc., and its wholly owned subsidiaries Kik US Inc., Endemic Mobile Inc., Clik Interactive Inc., Snowball Labs Inc. and Blynk for the period from December 18, 2015 (date of acquisition) to June 30, 2016.

(b) Revenue recognition:

The Company principally derives revenues through providing advertising services on its platform. Advertising revenues include income derived from performance-based advertisements in which the revenue is linked to actual performance measurement. Advertising revenues are mainly derived through (i) Promoted Chats, and (ii) Kik Points.

The Company introduces users to its advertisers mainly through its performance-based pay-for-action systems. For Promoted Chats, the Company charges advertisers on a per "opt-in chatter" basis. The corresponding revenue is recognized on a per opted-in chatter basis when users engage in a chat with the brand on the Company's messaging platform. For Kik Points, the Company charges advertisers as virtual points are earned by users on the Company's platform. Kik Points are issued to users for completing specific actions, such as interacting with content provided by advertisers, and can be exchanged for virtual goods on the Company's platform. The Company recognizes revenue from Kik Points as users earn the related points.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

From time to time, the Company enters into barter transactions with other entities. In these arrangements, the Company will provide advertising services on its platform in exchange for advertising on behalf of the Company by the counterparty. In these instances, the Company applies SIC 31, *Barter Transactions involving Advertising Services.* To measure the revenue to be recognized in these transactions, the Company considers similar advertising provided to other advertisers who have transacted on an arms' length, non-barter basis. In recognizing revenue from a barter transaction, the Company applies the above revenue recognition policies, depending on if the barter transaction includes Promoted Chats or Kik Points. In a barter transaction, the Company recognizes a corresponding advertising cost, which is reflected in the statement of operations.

The Company recognizes revenue on a net basis when it is performing as an agent in a transaction, and on a gross basis when the Company is the primary obligor to the end user.

Notwithstanding the preceding, revenue is recognized when collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts received for future services are deferred until the service is provided.

(c) Foreign currency translation:

IFRS requires that the functional currency of the Company be determined in accordance with specific indicators and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). As a result of an assessment of the primary indicators, the functional currency of the Company is the US dollar. The financial statements of the Company are prepared and presented using the US dollar.

Foreign currency transactions denominated in other than US dollars are translated into the functional currency on the following basis:

(i) Monetary assets and liabilities are translated at the rates of exchange prevailing at the statement of financial position date.

(ii) Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction.

(iii) Income and expenses for each income statement presented are translated at average exchange rates during the month in which they are recognized.

Exchange differences resulting from the settlement of foreign currency transactions are recognized directly in the statements of comprehensive income in the period in which they were incurred unless hedge accounting applies.

2. **Significant accounting policies (continued):**

(d) Financial instruments:

(i) Financial assets:

The Company initially recognizes accounts receivable recoverable on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets or liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets:

Accounts and other receivables:

Accounts and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, when significant, receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period.

Allowances for doubtful receivables represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due and is calculated as the difference between the carrying amount of the account receivable and the present value of the associated future cash flows. Where it becomes apparent that the account receivable will not be collected, the allowance for doubtful receivables is released and the account receivable written off.

Cash:

Cash comprises cash balances and call deposits with original maturities of three months or less.

Restricted cash:

Restricted cash represents amounts invested in term deposits which have been pledged as security for the Company's corporate credit cards, Automated Clearing House ("ACH") vendor payments and an office lease.

2. Significant accounting policies (continued):

(d) Financial instruments (continued):

(ii) Financial liabilities:

The Company has classified accounts payable and accrued liabilities as financial liabilities. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date that they are originated. Subsequent to initial recognition, when material, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expired.

Compound financial instruments:

The financial liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, representing the holders' option to convert into common shares, is recognized as the difference between the proceeds received or receivable from issuance of the instrument and the amount determined to represent the liability components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is included within contributed surplus and is not re-measured subsequent to initial recognition.

Interest, and any gains and losses relating to the financial liability, are recognized in profit or loss.

(e) Impairment of financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss on the financial asset, which is carried at amortized cost. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

2. Significant accounting policies (continued):

(f) Equipment and leasehold improvements:

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include all expenditures directly related to the acquisition of the asset. Depreciation is based on the cost of an asset less its residual value.

Depreciation is provided for using the following method and annual rates:

Computer hardware and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Office equipment	Straight-line	5 years
Telephone hardware	Straight-line	3 years

Leasehold improvements are amortized over 7 years, which represents the lesser of the lease term, including any renewal options which management has determined the Company is economically compelled to exercise, and the estimated useful life of the improvement.

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted, if appropriate.

(g) Intangible assets:

Limited life intangible assets, such as patents and technology, are stated at cost less accumulated amortization. Amortization is based on the estimated useful life of the assets and is calculated using the straight-line method over 20 years for patents and 2 years or technology.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Indefinite life intangible assets, such as domain name and trademarks are stated at historical cost. Indefinite life intangible assets are tested for impairment at least annually and upon the occurrence of an indication of impairment.

Subsequent expenditures on capitalized intangible assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

(h) Goodwill:

Acquisitions are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination.

2. Significant accounting policies (continued):

(h) Goodwill (continued):

Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed at the cash-generating unit (CGU) level. The Company defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value, less costs to sell. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate.

An impairment loss in respect of goodwill is never subsequently reversed. The Company completed its annual impairment tests at June 30, 2016.

(i) Impairment of non-financial assets:

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment is determined by assessing the recoverable amount of the assets or cash-generating unit ("CGU") to which the asset relates. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of an asset or CGU is the greater of net selling price (fair value less cost to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Where the recoverable amount of the CGU is less than the carrying amount of the CGU or related assets, an impairment loss is recognized. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the non-financial assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Where intangible assets have been allocated to CGUs, and part of the operation within those units is disposed of, the intangible assets associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Intangible assets disposed of in such cases are measured based on the relative values of the operation disposed of and the portion of the CGUs retained.

2. Significant accounting policies (continued):

(j) Research and development:

Expenditures on research activities are recognized under research and development expenses in the period in which they are incurred. An internally-generated intangible asset arising from product development is capitalized only if all of the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; the development cost of the asset can be measured reliably; the Company intends to, and has sufficient resources to complete development and to use or sell the asset; and the product from which the asset arises meets the IFRS criteria for technical and commercial feasibility. Where no internally generated intangible asset can be recognized, the development expenditure is recognized as an expense in the period in which it is incurred. Capitalized expenses include the costs of material, direct labor, direct overhead and outsourcing costs. To date all research and development costs have been charged to operations as incurred.

(k) Stock-based compensation:

The Company awards stock options to certain employees and directors, from time to time, on a discretionary basis. Stock options are measured at fair value at the grant date. Fair value is measured by using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the equity instruments were granted. The amount recognized as an expense is adjusted to reflect the number of awards for which the related services and non-market vesting conditions are expected to be met by estimating future forfeiture rates. The fair value of such awards is expensed over the vesting period with a corresponding increase in contributed surplus. Upon exercise of stock options, proceeds received, together with amounts previously recognized in contributed surplus, are recorded as an increase to share capital.

For non-employees, any reciprocal transactions whereby the Company acquires goods and services by granting equity instruments or by incurring liabilities to the non-employee in amounts based on the price of the Company's stock, shall be accounted for based on the fair value of the equity instruments or the fair value of the consideration received, whichever is more reliably measurable. The expense shall be recognized in the same period and the same manner as if the Company had paid cash for the goods or services provided.

Equity instruments, granted or otherwise transferred, directly to an employee or consultant of the Company by a principal shareholder (being a shareholder who holds more that 10% of the outstanding shares of the Company) are considered stock-based compensation of the Company to be accounted for by the Company, unless the transfer clearly is for a purpose other than compensation. The accounting substance of a transaction in which a principal shareholder directly transfers equity instruments to an employee/consultant as compensation is that the principal shareholder makes a capital contribution to the Company and the Company awards equity instruments to its employee or consultant.

2. Significant accounting policies (continued):

(l) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The Company is a party to agreements with certain developers who produce games and other content for the Company's platform. Under these agreements, the developers are able to redeem Kik points which have been received by them through in-game redemptions or other mechanisms in exchange for cash. The Company recognizes a provision for the estimated redemption by these developers, which considers the contractual redemption price, as well as an estimate of the ultimate redemption rate.

(m) Income taxes:

Income tax expense comprises current tax and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity.

Current income tax is the tax expected to be payable on the taxable profit for the period, using tax rates enacted or substantively enacted by the reporting date.

Deferred income tax is recognized on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Deferred income tax is calculated using the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates and laws enacted, or substantively enacted, by the reporting date.

Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that there is a change in the assessment of the probability that the related tax benefit will or will not be realized. At June 30, 2016, management has determined that the likelihood of realizing the deferred tax assets is not determinable and has therefore not recorded any tax assets.

2. Significant accounting policies (continued):

(n) Investment tax credits:

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The Company accrues investment tax credits when qualifying expenditures have been made, provided there is a reasonable assurance that the credits will be realized. The amount of investment tax credits accrued can vary, based on estimates of future taxable income. These credits can be applied against income tax liabilities and are subject to a 20 year carry-forward period or, in some cases, are refundable. Accrued investment tax credits are accounted for as other income in the consolidated statement of comprehensive loss or a reduction of the related assets cost for items capitalized in the statement of financial position. At June 30, 2016, management has determined that the likelihood of realizing the investment tax credits is reasonably assured and has therefore has recognized the corresponding anticipated benefit.

(o) New accounting pronouncements:

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

On January 19, 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments to IAS 12).

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on July 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

2. Significant accounting policies (continued):

(o) New accounting pronouncements (continued):

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 15 *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

On April 12, 2016, the IASB issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

2. Significant accounting policies (continued):

(o) New accounting pronouncements (continued):

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 *Financial Instruments*

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

2. Significant accounting policies (continued):

(o) New accounting pronouncements (continued):

IFRS 16 *Leases*

On January 13, 2016, the IASB issued IFRS 16 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on July 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

3. Accounts receivable:

	2016	2015
Accounts receivable	$ 902,909	$ 657,532
Allowance for doubtful accounts	(117,513)	-
Total	$ 785,396	$ 657,532

4. Equipment and leasehold improvements:

Asset	Balance at July 1, 2014	Additions	Balance at June 30, 2015	Additions	Balance at June 30, 2016
Computer hardware and software	$ 332,548	$ 107,902	$ 440,450	$ 44,703	$ 485,153
Furniture and fixtures	150,516	107,443	257,959	46,147	304,106
Equipment and telephone hardware	51,963	46,840	98,803	97,103	195,906
Leasehold improvements	204,354	-	204,354	15,310	219,664
Total	$ 739,381	$ 262,185	$ 1,001,566	$ 203,263	$1,204,829

Accumulated depreciation	Balance at July 1, 2014	Depreciation	Balance at June 30, 2015	Depreciation	Balance at June 30, 2016
Computer hardware and software	$ 137,575	$ 76,176	$ 213,751	$ 73,819	$ 287,570
Furniture and fixtures	45,635	32,691	78,326	50,372	128,698
Equipment and telephone hardware	36,576	18,536	55,112	28,978	84,090
Leasehold improvements	52,115	23,455	75,570	27,053	102,623
Total	$ 271,901	$ 150,858	$ 422,759	$ 180,222	$ 602,981

Carrying amounts	2016	2015
Computer hardware and software	$ 197,583	$ 226,699
Furniture and fixtures	175,408	179,633
Equipment and telephone hardware	111,816	43,691
Leasehold improvements	117,041	128,784
Total	$ 601,848	$ 578,807

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

5. Intangible assets and goodwill:

Asset	Balance at July 1, 2014	Acquisitions through business combinations	Additions	Balance at June 30, 2015	Acquisitions through business combinations	Additions	Balance at June 30, 2016
Domain name	$ 160,875	$ -	$ 1,247	$ 162,122	$ -	$ 10,102	$ 172,224
Trademarks	153,574	-	-	153,574	-	-	153,574
Patents	39,406	-	-	39,406	-	-	39,406
Technology	-	-	-	-	384,449	-	384,449
Goodwill	-	1,220,041	-	1,220,041	364,360	-	1,584,401
Total	$ 353,855	$ 1,220,041	$ 1,247	$ 1,575,143	$ 748,809	$ 10,102	$ 2,334,054

Accumulated amortization	Balance at July 1, 2014	Amortization	Balance at June 30, 2015	Amortization	Balance at June 30, 2016
Domain name	$ -	$ -	$ -	$ -	$ -
Trademarks	-	-	-	-	-
Patents	8,602	2,208	10,810	1,915	12,725
Technology	-	-	-	103,033	103,033
Goodwill	-	-	-	-	-
Total	$ 8,602	$ 2,208	$ 10,810	$ 104,948	$ 115,758

Carrying amounts	2016	2015
Domain name	$ 172,224	$ 162,122
Trademarks	153,574	153,574
Patents	26,681	28,596
Technology	281,416	-
Goodwill	1,584,401	1,220,041
Total	$ 2,218,296	$ 1,564,333

None of the intangible assets have been internally developed.

5. Intangible assets (continued):

The Company has determined it operates one cash-generating unit, being its messaging platform, due to the fact that the Company maintains shared development teams, central administration and management, and that the Kik messaging platform is central to the activities of the business. At June 30, 2016, the Company conducted an impairment test using a fair value less cost of disposal model. The fair value of the cash-generating unit was determined with reference to the implicit fair value of the Company's equity based on recent equity transactions entered into by the Company. Significant assumptions are comprised of the composition of an index group of companies, the volatility of the market capitalization of the index group of companies, a discount for lack of marketability of the Company's equity, and the period over which the volatility of the index is measured. These assumptions are based on external sources of data and as a result fall within level 2 of the fair value hierarchy.

Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the CGU's carrying amount to exceed its recoverable amount.

6. Provisions:

	Kik Points	Litigation	Blynk earn out	Total
Balance at June 30, 2015	$ 504,286	$ 86,195	$ -	$ 590,481
Provisions made during the period	2,735,613	496,682	166,535	3,398,830
Provisions used during the period	(1,785,277)	-	-	(1,785,277)
Provisions expired during the period	(283,187)	-	-	(283,187)
Balance at June 30, 2016	$ 1,171,435	$ 582,877	$ 166,535	$ 1,920,847

Kik Points provision

The Kik Points provision relates to total points outstanding on the Kik platform. Kik Points are awarded to users upon successful completion of a specific action. Users are able to redeem Kik Points for virtual goods, with some third party developers able to redeem Kik Points utilized on their applications in exchange for cash. After one year of inactivity, Kik Points will expire. The provision is determined based on the agreed-upon cash value of Kik Points set out in arrangements with such developers, and the expected amount of Kik Points to be redeemed, based on historical redemption rates.

6. Provisions (continued):

Litigation provision

The Litigation provision relates to a class action lawsuit in which the Company, along with a number of others, has been named as a respondent to the claim. The claim alleges that a legacy version of the Company's platform violated certain privacy legislation. Management has recorded a provision based on the likely settlement of the case, for the purpose of avoiding future legal fees and time spent by management on the matter, which is based on input from the Company's legal counsel.

Blynk earn out provision

The Blynk earn out provision relates to the deferred cash compensation payment resulting from the Blynk acquisition. The deferred compensation is based on the successful achievement of four separate milestones, which expire 2.5 years after the effective date of close (December 18, 2015).

7. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
4,000,000 Class A preferred shares		
1,779,990 Class B preferred shares		
1,651,481 Class C preferred shares		
1,178,045 Class D preferred shares		
Issued and outstanding:		
11,851,926 common shares (2015 - 11,838,913)	$ 864,010	$ 726,070
3,350,317 Class A preferred shares (2015 - 3,350,317)	8,521,402	8,521,402
1,779,990 Class B preferred shares (2015 - 1,779,990)	21,342,969	21,342,969
1,651,481 Class C preferred shares (2015 - 1,651,481)	39,180,968	39,180,968
1,178,045 Class D preferred shares (2015 - 0)	48,222,720	-
	$ 118,132,069	$ 69,771,409

During the year, the Company issued 1,178,045 Class D preferred shares for total proceeds of $50,000,000, net of related transaction costs of $1,777,280, of which $155,808 was incurred in Fiscal 2015.

During the year, the Company issued, 1,884 common shares for recruiting services performed during the year valued at $24,600.

7. Share capital (continued):

During the year, the Company issued 2,625 (2015 – 689,896) common shares in respect of stock options for total proceeds of $15,750 (2015 - $287,977). Previously recognized related stock compensation expense of $6,705 (2015 - $133,962) was transferred from contributed surplus to share capital as a result.

As part of the acquisition of 1908251 Ontario Inc. ("Blynk") (note 16), 1,324 common shares valued at $17,318 were issued to former shareholders of Blynk. Subsequent to the transaction, 3,992 common shares valued at $52,215 were issued to former shareholders of Blynk, subject to meeting certain performance criteria.

As part of the acquisition of Endemic Mobile Inc. ("Endemic") in the previous year, 3,188 common shares valued at $21,352 were issued to former shareholders of Endemic, subject to meeting certain performance criteria.

Shares issued by the Company as consideration are measured at their fair value which was determined by the Company using a third party valuator and considering the value of other securities issued by the Company in exchange for cash.

All classes of preferred shares are voting, entitled to non-cumulative dividends at a rate of 6% per annum, convertible into common shares at the option of the holder at a conversion price of $2.63 for Class A preferred shares, $12.70 for Class B preferred shares, $23.81 for Class C preferred shares and $42.44 for Class D preferred shares, subject to adjustment for the issuance of dilutive instruments.

All classes of preferred shares are mandatorily convertible into common shares upon the occurrence of an initial public offering at a price of no less than $47.63 per share.

In the event of any liquidation event, holders of Class D preferred shares are entitled to receive payment from the distribution of assets before any payment is made to holders of preferred shares, other than Class D, and holders of common shares.

8. Stock-based compensation:

The Company maintains an employee stock option plan (the "Plan") for the purpose of attracting and retaining key personnel. The Company has reserved 4,109,857 shares to make available to employees by virtue of stock option grants. The exercise price of each option is based on the fair value of the Company's stock on the date of the grant. Stock options have a maximum term of up to ten years from date of grant. The option vesting period ranges between one and four years.

KIK INTERACTIVE INC.

8. Stock-based compensation (continued):

A summary of the Plan's activity is as follows:

	2016		2015	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of year	2,928,140	$ 2.39	2,825,616	$ 0.83
Options granted	159,600	15.00	860,500	5.96
Options forfeited	(162,450)	3.70	(68,080)	4.27
Options exercised	(2,625)	6.00	(689,896)	0.44
Options expired	-	-	-	-
Outstanding, end of year	2,922,665	$ 3.00	2,928,140	$ 2.39

	Options outstanding		Options exercisable	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
$0.20	1,221,885	$ 0.20	1,221,885	$ 0.20
$1.30	488,289	1.30	484,932	1.30
$3.00	376,181	3.00	312,164	3.00
$6.00	641,810	6.00	247,386	6.00
$15.00	194,500	15.00	187	15.00
	2,922,665	$ 3.00	2,266,554	$ 1.46

The fair value of the options granted are determined using the Black-Scholes option pricing model. Expected volatility has been based on an evaluation of the historical volatility of guideline public companies and company-specific factors. The expected term of the instruments has been based on historical experience and general option holder behaviour. The weighted average fair value of options granted in 2016 and 2015 have been calculated based on the following assumptions:

8. Stock-based compensation (continued):

	2016	2015
Weighted average fair value of each option	$ 4.11	$ 2.55
Assumptions:		
Expected volatility	65%	70%
Risk-free interest rate	0.58%	0.8%
Expected life in years	2 years	2.5 years
Expected dividend yield	0.00%	0.00%

The total compensation expense recognized during the year related to stock option vesting was $1,159,040 (2015 - $1,128,084) with a corresponding amount credited to contributed surplus. Compensation expense related to former shareholders of Blynk and Endemic for meeting certain performance criteria was $25,991 (2015 – nil).

9. Debentures payable and share purchase warrants:

During the year ended June 30, 2010, the Company issued $1,000,000 CDN in debentures in two tranches which were unsecured, bear interest at a rate of 12% per annum and compounded semi-annually. Interest on the debentures became payable on a quarterly basis commencing December 13, 2010, being the date of the Company's completion of an equity financing under which the gross proceeds received exceed $2,000,000 (a "Qualified Financing"). Interest accrued to this date in the amount of $117,391 CDN was capitalized to the debenture in accordance with the debenture agreement, and was payable upon maturity. The debentures, together with accrued interest, were repaid upon maturity on November 30, 2014.

Contemporaneously with the issuance of the debentures, the Company issued share purchase warrants to the investors which grants them the right to purchase Class A Preferred shares ("the warrant shares") in the Company subject to an aggregate maximum of $1,000,000 CDN. Based on the exchange rate in effect at June 30, 2016, warrants to acquire the equivalent of 386,958 shares were outstanding.

The exercise price of the warrant shares under this arrangement is $2.6333 USD, representing the price per share of the Company determined and paid in connection with the Qualified Financing, less a discount of 15% or 25%, determined based on the date of which tranche the underlying debenture was issued. The warrants expire November 30, 2016. No warrants were exercised during the year.

9. Debentures payable and share purchase warrants (continued):

Upon issuance, the Company allocated the proceeds of the debentures based on the fair value of the liability component, with the residual allocated to the share purchase warrants. The liability component was valued based on the present value of the future cash flows associated with the debentures as if they were outstanding until maturity. The present value of the future cash flows was calculated based on a risk-adjusted discount rate of 24%.

Upon issuance, the value of the liability component was estimated at $520,565 and was being accreted to maturity on November 30, 2014.

10. Commitments and contingencies:

The Company rents its premises under an operating lease and is committed to a hosting services agreement. Future minimum commitments in respect of these agreements are as follows:

2017	$ 4,234,396
2018	1,442,624
2019	221,250
2020	225,840
Total	$ 6,124,110

The Company has the option to renew its Waterloo lease for one additional five-year term at the fair market value for rent at the time of the renewal in November 2016.

During the year ended June 30, 2016, an amount of $518,884 (2015 - $283,706) was recognized in the consolidated statement of operations in respect of operating leases.

As at June 30, 2016, the Company has letters of credit in the amount of $80,000 (2015 – nil) for an office lease and $136,000 (2015 – nil) for its Automated Clearing House ("ACH") vendor payments.

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

11. Income taxes:

The Company's effective income tax expense differs from income tax expense that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to the Company's loss before income taxes. The reasons for the difference are as follows:

	2016	2015
Loss for the year	(28,956,535)	$ (18,677,351)
Combined basic federal and provincial income tax rate	26.5%	26.5%
Income tax recovery at statutory rate	$ (7,673,482)	$ (4,949,498)
Decrease (increase) in income tax recovery resulting from:		
Differences between Canadian rate and rate applicable to US subsidiary	(193,655)	(2,146)
Unrecognized tax benefits of losses	5,635,015	3,398,460
Unrecognized tax benefits of other temporary differences	1,026,993	253,784
Non-deductible stock-based compensation	306,275	301,671
Non-taxable portion of unrealized foreign exchange gains	530,522	(264,132)
Non-deductible foreign exchange translation	361,783	1,177,884
Other non-deductible expenses	6,237	83,977
Other differences	312	-
	$ -	$ -

Unrecognized deferred tax assets:

	2016	2015
Non-capital losses	$ 13,568,471	$ 8,261,695
Scientific research and experimental development	1,229,426	613,410
Non-deductible reserves	553,092	160,519
Financing costs	429,903	72,260
Property and equipment	10,837	(16,191)
Intangible assets	(124,055)	(20,617)
Unrealized foreign exchange losses (gains)	341,351	(248,247)
	$ 16,009,025	$ 8,822,829

There are no aggregate taxable temporary differences associated with the Company's investments in its subsidiaries for which deferred tax liabilities have not been recognized.

11. Income taxes (continued):

In accessing the recognition of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of future taxable temporary differences. Management considers the scheduled reversal of taxable temporary differences, projected future taxable income, and tax planning strategies in determining if deferred tax assets are more likely than not to be realized. The amount of the deferred tax asset considered realizable could change materially in the near term based on future taxable income that may arise before tax losses and scientific research and experimental development tax credits expire.

As at June 30, 2016, the Company has the following non-capital losses and scientific research and experimental development tax credits available to reduce future years' income for tax purposes:

Year of expiry	Unrecognized tax losses	Unrecognized SR&ED credits
2028	$ 6,940	$ 341
2029	550,708	14,172
2030	2,311,072	38,938
2031	2,877,146	71,846
2032	4,119,542	2,452
2033	8,460,429	7,466
2034	1,624,830	48,328
2035	10,264,702	214,426
2036	20,274,928	179,782
Indefinite	2,459,152	-
	$ 52,949,449	$ 577,751

In the normal course of operations, the Company's scientific research and experimental tax credit claims are subject to reviews by federal and provincial government authorities. Reviews of certain of the Company's scientific research and experimental development tax credit claims are incomplete at June 30, 2016, and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

12. Transactions with key management personnel:

(i) Key management personnel compensation:

Key management personnel include the Company's directors and members of the executive management team. Compensation awarded to key management is as follows:

	2016	2015
Salaries	$ 1,565,876	$ 809,485
Benefits	62,085	16,948
Share-based awards	231,398	130,091
Total	$ 1,859,359	$ 956,524

(ii) Key management personnel transactions:

During the year the Company paid $60,000 (2015 - $60,000) to a member of key management personnel in connection with a rental agreement for office space.

13. Research and development:

During the year, the Company incurred expenditures totaling $5,309,693 (2015 - $3,027,823) relating to research and development.

14. Capital management:

Management considers shareholders' equity to represent the capital of the Company. Total capital of the Company at June 30, 2016, was $42,227,432 (2015 - $21,462,315). The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth and potential acquisitions, as well as to allow the Company to respond to changes in economic and/or marketplace conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation or raise debt. At this time, the Company has not utilized debt facilities as part of its capital management program nor paid dividends to its shareholders. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the period.

The following table sets out the Company's capital quantitatively at the following reporting dates:

	2016	2015
Share capital	$ 118,132,069	$ 69,771,409
Contributed surplus	2,887,591	1,526,599
Share purchase warrants	454,970	454,970
Deficit	(79,247,198)	(50,290,663)
Total	$ 42,227,432	$ 21,462,315

15. Financial instruments and financial risk management:

(a) Fair value:

The fair value of the Company's financial instruments measured at fair value has been segregated into three levels. (1) Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. (2) Fair value of assets included in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. (3) Fair value of assets and liabilities included in Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Company has no significant financial instruments measured at fair value included in Levels 1, 2 or 3.

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

(b) Financial risk management:

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including foreign exchange risk) and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the finance department under the guidance of the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

(c) Foreign exchange risk:

The Company is exposed to foreign exchange risk primarily in the following ways:

(i) Cash flow – A significant portion of the Company's expenses are denominated in Canadian dollars; however, the Company has significant cash holdings that are denominated in US dollars and is, therefore, able to manage foreign currency risk with a natural hedge. A 1% strengthening of the Canadian dollar against the US dollar for the year ended June 30, 2016, would have increased net income, if unhedged, by approximately $116,303. A 1% weakening of the Canadian dollar against the US dollar at those dates would have had the equal but opposite effect, on the basis that all other variables remain constant. Changes in the Canadian dollar vis-a-vis the US dollar would not have a significant impact on equity.

15. Financial instruments and financial risk management (continued):

(c) Foreign exchange risk (continued):

(ii) Working capital – The Company has a US dollar measurement or functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in Canadian dollars. However, as at June 30, 2016, the Company's US denominated working capital exceeds its Canadian denominated working capital thereby managing its risk with a natural hedge. At year end, working capital denominated in Canadian dollars was approximately $11,261,635. A 1% change in Canadian to US dollar exchange rates, if not hedged, would have impacted net income by approximately $88,065.

The following accounts include monetary amounts denominated in Canadian dollars at their US dollar equivalents:

	2016
Cash	$ 9,003,889
Accounts receivable	-
Investment tax credits recoverable	1,038,867
Prepaid expenses and other assets	237,507
Accounts payable and accrued liabilities	1,389,858
Provisions	166,535
	$ 11,836,656

(d) Credit risk:

Credit risk arises from the possibility that the Company's customers and counter parties may experience difficulty and be unable to fulfill their contractual obligations. The Company manages this risk by applying credit procedures whereby analyses are performed to control the granting of credit to its customer and counter parties based on their credit risk. In addition, the Company maintains cash deposits with major financial institutions. As at June 30, 2016, the Company's accounts receivable are not subject to significant concentrations of credit risk. The Company's maximum exposure to credit risk associated with the Company's financial instruments is limited to their carrying amount.

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

15. Financial instruments and financial risk management (continued):

(d) Credit risk (continued):

	2016		2015	
	Gross	Allowance	Gross	Allowance
Not past due	$ 315,631	$ -	$ 245,898	$ -
Past due 0-30 days	181,298	-	80,342	-
Past due 31-60 days	113,432	-	101,727	-
Past due 61-90 days	51,580	-	145,469	-
Past due more than 90 days	240,968	(117,513)	84,096	-
Total	$ 902,909	$ (117,513)	$ 657,532	$ -

The carrying amount of the financial assets representing the maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2016	2015
Cash and cash equivalents	$ 41,592,731	$ 18,565,036
Restricted cash	393,197	376,000
Accounts receivable	785,396	657,532
Other receivable	103,366	462,606
Investment tax credits recoverable	1,038,867	1,171,878
Total	$ 43,913,557	$ 21,233,052

The maximum exposure to credit risk for accounts receivable, other receivable and investment tax credits recoverable at the reporting date by geographic region was:

	Carrying Amount	
	2016	2015
Canada	$ 1,142,233	$ 1,652,559
United States	785,395	639,457
Total	$ 1,927,628	$ 2,292,016

KIK INTERACTIVE INC.

Notes to Consolidated Financial Statements, continued

Year ended June 30, 2016

16. Business combination:

Blynk

On December 18, 2015, Kik Interactive Inc. executed a share purchase agreement (the "Agreement") for the acquisition of Blynk, acquiring 100% equity ownership of its digital content development business for cash consideration of $336,671, contingent consideration of $422,596, and 1,324 common shares in the Company valued at $17,318 representing total consideration of $776,585. Blynk's business involves the development of a technology/interface that enables users to interact with fashion and brands of interest.

Identifiable assets acquired and liabilities assumed consist of:

Cash	$	30,734
Technology		384,449
Goodwill		364,360
Accounts payable		(2,958)
Total purchase consideration	$	776,585

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from Blynk's complementary business. None of the goodwill recognized is deductible for income tax purposes.

The Agreement includes a deferred compensation payment of $198,165 and 26,618 shares of restricted stock due in installments of varied amounts following the business combination. Payment and issuance of these amounts are based on the successful completion of certain revenue, store, and bot milestones. Cash amounts relating to this agreement are classified as a liability and are carried at fair value with changes in fair value flowing through the statement of operations. Share consideration has been classified as equity within contributed surplus and is not re-measured subsequent to initial recognition. As of June 30, 2016, $42,787 in cash compensation and 3,992 shares had been issued in connection with this aspect of the agreement.

The Agreement also includes $86,112 in cash consideration granted to Blynk debtholders in order to extinguish two promissory notes previously held by Blynk, and $39,234 in cash consideration to pay third party expenses. The amount was included in the total cash consideration granted on acquisition. The acquisition costs attributed to Blynk incurred during the year were $39,234 which were included as part of cash consideration.

16. Business combination (continued):

Included in the Group's consolidated results for the year ended June 30, 2016, is revenue of $0 and net loss of $4,260 recognized by Blynk from the date of acquisition to June 30, 2016. If the Company had acquired Blynk effective July 1, 2015, the revenue would have been approximately $95,248 and there would have been a net profit of approximately $4,987.

17. Comparative figures:

Certain 2015 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.

18. Subsequent events:

On December 16, 2016, the Company completed the purchase of substantially all of the assets of Rounds Entertainment Ltd. ("Rounds") for aggregate share based consideration valued at $21,992,192. Rounds is a live communication platform that facilitates instant group video chat on mobile devices. The transaction allows the Company to incorporate Rounds' video chat feature onto the Kik chat platform. Management is in the process of determining the allocation of the purchase consideration to the assets acquired and the liabilities assumed.

The share-based consideration is comprised of 102,468 common shares valued at $957,051 and 878,294 newly created Class A-1 preferred shares at $21,035,141. The Class A-1 preferred shares are voting, entitled to non-cumulative dividends at a rate of 6% per annum and convertible into common shares at the option of the holder at a conversion price of $42.44, subject to adjustment for the issuance of dilutive instruments. Class A-1 preferred shares are mandatorily convertible into common shares upon the occurrence of an initial public offering at a price of no less than $47.63 per share. The value of the share-based consideration transferred was determined by an independent valuator through the application of commonly used valuation techniques with reference to the Company's recent capital transactions with arms' length third parties.

Of the total preferred A-1 shares, 88,180 will remain withheld in escrow. The ultimate timing and number of escrow shares issued is dependent upon whether an indemnified party is subject to a qualifying claim for a period of time of up to 30 months following the asset purchase date.

In addition, the transaction includes contingent consideration of up to 82,950 common shares due to the vendors upon successful completion of a performance milestone. Management is in the process of determining the probability of achieving such milestone and has, therefore, excluded any related amount from the purchase consideration above.

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18. Subsequent events (continued):

The transaction also includes deferred consideration of 82,949 common shares to be issued to the vendors based on continued employment with the Company. The value of any potential consideration is excluded from the purchase equation and recorded as compensation expense as the corresponding employees provide service to the Company.